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Mixed Results for Soviet Oil and Gas in 1965

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~~CONFIDENTIAL~~Mixed Results for Soviet Oil and Gas in 1965

Although production of both crude oil and natural gas in the USSR in 1965 was in excess of plan, results for the industry as a whole for the year were mixed. Production of crude oil in 1965 exceeded the original Seven Year Plan (1959-65) goal for that year by about 3 percent, but natural gas fell short of its original goal by 14 percent, largely because of inadequate transmission capacity and a lack of consumers. The production successes in 1965 were offset by failures in the pipeline and refinery construction programs. Exports of oil continued to increase, reaching about 25 percent of supply, but the oil export drive was overshadowed somewhat by activities in natural gas trade, implying perhaps a major role for the latter commodity in coming years.

1. Production

The production of crude oil reached 243 million metric tons (mt), an increase of about 8.7 percent compared with 1964, and in excess of the original Seven Year Plan goal of 230 to 240 million mt. ^{1/} The extraction of natural gas increased by 17 percent, to an estimated 127.4 billion cubic meters (bcm), but output fell short of the Seven Year Plan goal by 14 percent, reflecting inadequate transmission capacity and a failure to reach consumers.

Production of crude oil was begun at the major new oil producing regions of the USSR — Western Siberia and the Mangyshlak Peninsula of Kazakhstan — but their contribution to national supply was insignificant. The Urals-Volga oil fields continued to provide the bulk of the crude oil output as production accounted for a reported 72 percent of the USSR total in 1965. ^{2/}

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2. Pipelines

The pressing need to move increasingly larger quantities of fuel into the energy-deficient European USSR forced Soviet officials to make two important decisions in 1965 in an effort to meet this need. Construction was begun on a 3,375 kilometer (km) dual 40-inch gas pipeline designed to move gas from Central Asia to the Moscow industrial region. ^{3/} This was followed by formulation of plans to develop the newly found gas fields at Novyy Port, located in Tyumen Oblast about 120 km north of the Arctic Circle. Novyy Port gas will be supplied to Leningrad and to Minsk in Belorussia via a 3,000 km pipeline, construction of which is to begin in the near future. ^{4/}

Oil and gas pipeline construction during 1965 was not marked by any outstanding achievement. Construction emphasized the building of natural gas systems, as has been the pattern in recent years. Work continued on the building of a second gas pipeline between the Gazli fields in Uzbek SSR and the Urals. This 2,000 km 40-inch pipeline was to have been completed in 1965 but actual construction has fallen short of plan. Reasons for this shortfall are not clear but it may be that a portion of the steel pipe allocated to construction of this pipeline has been diverted to initial construction on a third pipeline between Gazli and the Urals.* Construction also continued on an inter-republic gas pipeline system in Central Asia.

* Construction of a third gas pipeline between Gazli and the Urals was not included in the original Seven Year Plan. However, experience gained in operation of the Gazli-Ural gas pipeline no. 1, which was completed in 1963, has found that the pipeline, for technical reasons, could not move gas in the scheduled amounts. To carry that amount of gas originally scheduled for Gazli-Ural no. 1 and no. 2 — 21 bcm annually — would now require the construction of a third line.

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(Note: This map will be updated to 1 February 1966 and will show the following changes. The Berezovo-Serov portion of the gas pipeline under construction between Berezovo and Chelyabinsk has been completed; the Shaim-Tyumen oil pipeline is completed; the oil pipeline from the West Siberian oil fields to Omsk is now under construction; an oil pipeline is planned from Megion to Anzero-Sudzhensk, (Megion is the oil field to the east of Surgut); a third gas line is under construction between Bukhara and the Urals; and the map will show the recently completed Kirishi oil refinery.)

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Only one major oil pipeline is known to have been completed in 1965 -- the 430 km, 20-inch crude oil pipeline from the Shaim oil fields in West Siberia to Tyumen. 5/ Construction continued on parallel oil pipelines between Baku and Batumi and between Sakhalin Island and Komsomolsk on the mainland. Extension of a crude oil pipeline beyond Yaroslavl in the direction of Leningrad continued and the first few km were installed on the 1,000 km 40-inch pipeline between the Ust-Balyk oil fields in West Siberia and the Omsk oil refinery. Finally, the Polotsk-Ventspils oil pipeline, of major concern to the Soviet desire to export larger quantities of oil from the Baltic area, was not finished in 1965, as had been planned, and construction will be carried over into 1966. 6/

3. Refining

Only one oil refinery -- Kirishi, located about 100 km southeast of Leningrad -- came on stream in 1965. 7/ Because the first crude oil was delivered to Kirishi in only late December, these new facilities were of no practical use to the refining industry during the year. Nevertheless, total capacity to refine crude oil in the USSR is estimated to have increased by 13 million mt, or by 6 percent. This growth in capacity was obtained through a combination of expansion of existing refineries and a more intensive use of available capacity. Except for continuing spot shortages of diesel fuel, petroleum products generally were available in quantity and quality adequate for domestic needs.

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4. Trade

Preliminary estimates for 1965 indicate that the USSR probably exported on the order of 61 to 62 million mt of crude oil and petroleum products, equal to about 25 percent of supply, and approximately 8.7 percent more than in the previous year. Thus the relative growth in exports of oil matched the growth in crude oil production. No breakdown in deliveries between other Communist and non-Communist countries is feasible yet. The export of oil from the USSR in 1965 probably represented maximum capability but there is no evidence of domestic supply having been curtailed in order to expand exports. In general, oil continued to be marketed in areas and under conditions which would bring about the greatest return.

Also during 1965 the USSR demonstrated an increasing interest in trade in natural gas. The USSR is to import considerable quantities of gas, ultimately reaching about 13 bcm per year, as part of expanded trade relationships with Iran and Afghanistan. A 1,000 km pipeline is to be built from the Gach Saran-Agha Jari fields in the south of Iran to Astara on the Iran-Soviet border. 8/ The pipeline, to be completed in 1970, is to supply Azerbaydzhan with about 10 billion cubic meters of gas annually by 1975. Earnings from the sales of gas by Iran to the USSR will be used to repay the \$US 290 million credit granted Iran by the USSR for the construction of a steel mill, a machine tool plant, and the gas pipeline.

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The Shibarghan gas fields in northern Afghanistan will be tapped for the ultimate export of about 3 bcm of gas annually to the USSR. A pipeline reportedly is to link these fields with Dushanbe, the capital city of the Tadzhik SSR. 9/ Proceeds from the sale of gas to the USSR will be used to reduce the currently unfavorable trade balance between Afghanistan and the USSR.

These imports of gas by the USSR may be balanced off by exports to Poland, Czechoslovakia, Japan and by rumored sales to Italy. Negotiations with Japan reportedly involve the construction of natural gas liquefaction facilities on Sakhalin Island and the acquisition of special tankers for the delivery of the liquefied gas to Japan. 10/ Japan presumably would supply the liquefaction equipment, steel pipes, and the tankers, valued on the order of \$US 200 million. Rumored sales of gas to Italy involve the construction of a pipeline from the USSR through Hungary and Yugoslavia to northern Italy, with exports on the order of 7 bcm annually.

Natural gas quite likely will play an important role in Soviet foreign trade in future years. This commodity, which the USSR possesses in abundance, is finding increasing international use as an industrial and household fuel and as a petrochemical raw material, and sales abroad could provide at least a partial answer to growing foreign exchange requirements.

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